ICF International, Inc.
Form 10-Q
August 14, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 001-33045

ICF International, Inc.

(Exact name of Registrant as Specified in its Charter)

Delaware	**22-3661438**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
9300 Lee Highway, Fairfax, VA	**22031**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code: (703) 934-3000

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

¨ Large accelerated filer ¨ Accelerated filer x Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

As of August 1, 2007, there were 14,386,012 shares outstanding of the registrant s common stock.

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ICF INTERNATIONAL, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE

QUARTERLY PERIOD ENDED JUNE 30, 2007

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ICF International, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS AT

JUNE 30, 2007 (UNAUDITED) AND DECEMBER 31, 2006

(in thousands)

Assets

	June 30, 2007 *(Unaudited)*	December 31, 2006
Current Assets:		
Cash and cash equivalents	$ 1,677	$ 2,997
Contract receivables, net	144,256	110,548
Prepaid expenses and other	4,107	2,659
Income tax receivable	1,307	
Deferred income taxes	846	2,494
Total Current Assets	152,193	118,698
Total Property and Equipment, net	5,484	5,388
Other Assets:		
Goodwill	116,531	83,833
Other intangible assets	4,734	2,720
Restricted cash	3,567	3,703
Other assets	1,724	1,485
Total Assets	$ 284,233	$ 215,827

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ICF International, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

Liabilities and Stockholders Equity

	June 30, 2007 *(Unaudited)*	December 31, 2006
Current Liabilities:		
Accounts payable	$ 34,220	$ 19,455
Accrued expenses	62,974	37,202
Accrued salaries and benefits	24,742	17,727
Deferred revenue	11,483	18,281
Income taxes payable		3,682
Total Current Liabilities	133,419	96,347
Long-Term Liabilities:		
Long-term debt	5,000	
Deferred rent	1,682	1,599
Deferred income taxes	1,888	1,324
Other liabilities	2,223	2,610
Total Liabilities	144,212	101,880
Commitments and Contingencies		
Stockholders Equity:		
Preferred stock, par value $.001 per share; 5,000,000 shares authorized; none issued		
Common stock, par value, $.001 per share; 70,000,000 shares authorized; 14,432,691 and 13,933,074 issued; and 14,374,313 and 13,874,696 outstanding as of June 30, 2007, and December 31, 2006, respectively	14	14
Additional paid-in capital	105,716	98,995
Treasury stock	(428)	(428)
Accumulated other comprehensive income	312	227
Stockholder notes receivable	(266)	(562)
Retained earnings	34,673	15,701
Total Stockholders Equity	140,021	113,947
Total Liabilities and Stockholders Equity	$ 284,233	$ 215,827

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ICF International, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

(in thousands, except per share amounts)

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Revenue	$ 190,171	$ 56,145	$ 341,884	$ 109,593
Direct Costs	142,640	34,836	250,792	66,462
Operating costs and expenses:				
Indirect and selling expenses	27,734	21,978	55,468	39,861
Depreciation and amortization	1,174	894	2,341	1,666
Total operating costs and expenses	28,908	22,872	57,809	41,527
Operating income (loss)	18,623	(1,563)	33,283	1,604
Interest expense	(414)	(1,229)	(738)	(2,281)
Other income	158	90	436	116
Income (loss) before taxes	18,367	(2,702)	32,981	(561)
Income tax expense (benefits)	7,207	(1,296)	13,139	(249)
Net income (loss)	$ 11,160	$ (1,406)	$ 19,842	$ (312)
Earnings per Share:				
Basic	$ 0.79	$ (0.15)	$ 1.42	$ (0.03)
Diluted	$ 0.75	$ (0.15)	$ 1.35	$ (0.03)
Weighted-average Common Shares Outstanding:				
Basic	14,123	9,270	13,939	9,248
Diluted	14,848	9,270	14,685	9,248

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ICF International, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six months ended June 30, 2007	2006
Cash Flows from Operating Activities		
Net income (loss)	$ 19,842	$ (312)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,341	1,666
Non-cash compensation	1,397	272
Accrued interest on stockholder notes	(18)	(36)
Loss on disposal of fixed assets	2	163
Deferred income taxes	1,299	(2,773)
Changes in operating assets and liabilities, net of the effect of acquisitions:		
Contract receivables, net	(23,979)	(14,900)
Prepaid expenses and other	(1,071)	(147)
Income tax receivable	(832)	
Accounts payable	14,256	724
Accrued expenses	25,858	3,590
Accrued salaries and benefits	3,804	(391)
Deferred revenue	(7,096)	8,349
Income tax payable	(4,555)	377
Deferred rent	(28)	(79)
Other liabilities	(1,066)	2,675
Net Cash Provided by (Used in) Operating Activities	30,154	(822)
Cash Flows from Investing Activities		
Capital expenditures	(1,405)	(1,913)
Costs associated with trademark application	(14)	(37)
Capitalized software development costs	(359)	(142)
Additional payments for acquisition of Caliber Associates, Inc.	(523)	102
Payments for business acquisitions, net of cash acquired	(40,021)	
Net Cash Used in Investing Activities	(42,322)	(1,990)
Cash Flows from Financing Activities		
Payments on notes payable		(2,567)
Advances from working capital facilities	96,222	49,891
Payments on working capital facilities	(91,222)	(43,364)
Restricted cash	136	(96)
Debt issue costs	(11)	(132)
Exercise of options	2,956	
Tax benefits of stock option exercises	2,251	
Net proceeds from initial public offering	12	(1,310)
Net payments for stockholder issuances and buybacks	105	300
Payments received on stockholder notes	314	752

Net Cash Provided by Financing Activities	10,763	3,474
Effect of Exchange Rate on Cash	85	(17)
Net (Decrease) Increase in Cash and Cash Equivalents	(1,320)	645
Cash and Cash Equivalents, beginning of period	2,997	499
Cash and Cash Equivalents, end of period	$ 1,677	$ 1,144
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$ 693	$ 2,828
Income taxes	$ 14,995	$ 2,197

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements

(Dollar amounts in tables in thousands, except per share data)

Note 1. Basis of Presentation and Nature of Operations

Interim Results

The unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). These rules and regulations permit some of the information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) to be condensed or omitted. In management s opinion, the unaudited consolidated financial statements contain all adjustments, that are of a normal recurring nature, necessary for a fair statement of the Company s results for the three-month and six-month periods ended June 30, 2007, and June 30, 2006. Operating results for the three-month and six-month periods ended June 30, 2007, are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2006, and the notes thereto included in the Company s Annual Report on Form 10-K, filed with the SEC on March 30, 2007.

Basis of Presentation and Nature of Operations

The accompanying condensed consolidated financial statements include the accounts of ICF International, Inc. (ICFI) and its subsidiaries (collectively, the Company). The Company provides management, technology, and policy professional services in the areas of energy and climate change, environment and infrastructure, health, human services and social programs, and homeland security and defense. The Company s major clients are the State of Louisiana and United States (U.S.) government agencies, especially the Department of Defense, the Environmental Protection Agency, the Department of Health and Human Services, the Department of Homeland Security, the Department of Transportation, and the Department of Justice; commercial entities, particularly electric and gas utilities and other energy market participants; and other government organizations throughout the U.S. and the world. The Company offers a full range of services to these clients, including strategy, analysis, program management, and information technology solutions that combine experienced professional staff, industry and institutional knowledge, and analytical methods.

The Company, incorporated in Delaware, is headquartered in Fairfax, Virginia, with 18 primary domestic regional offices and international offices in London, Moscow, New Delhi, Rio de Janeiro and Toronto.

Note 2. Acquisitions

On June 28, 2007, the Company acquired 100% of the outstanding shares of Z-Tech Corporation (Z-Tech), a privately held company that provides software engineering, web design and development, and scientific computing services in support of federal health agencies. The Company believes that by combining Z-Tech s technology and program support expertise with the Company s established presence in health communications, policy, and clearinghouses, the Company stands to gain a business edge in serving the large federal health care market, which is estimated at more than $25 billion.

The acquisition was accounted for in accordance with the provision of SFAS No. 141, *Business Combinations.* The aggregate purchase price was $27.3 million in cash, excluding transaction expenses. In addition to the initial consideration, the purchase agreement provides for additional cash payments of up to $8.0 million if certain performance criteria are met. If the performance criteria are met, the additional cash payments will be recorded as goodwill. The results of operations for Z-Tech will be included in the Company s statement of operations after June 30, 2007. The effect of the acquisition is reflected in the Company s June 30, 2007 balance sheet and related notes.

The Company has engaged an independent valuation firm to assist management in the allocation of the purchase price to goodwill and to other acquired intangible assets, but no allocation has yet been made of the excess of the purchase price over the estimated fair value of the net tangible assets acquired, which is $24.8 million. The Company expects this allocation to be finalized before the end of 2007. For this acquisition, goodwill and intangibles are not deductible for tax purposes. Pursuant to the requirements of SFAS No. 141, the acquisition did not meet the criteria of a material business combination, and therefore, *pro forma* and certain other disclosures are not provided.

During January of 2007, the Company acquired two companies:

The Company acquired 100% of the outstanding common stock of Energy and Environmental Analysis, Incorporated (EEA), a privately held company specializing in energy market analyses, modeling, transportation and energy technology, and environmental advisory services. The Company believes that the combination of EEA s modeling framework in the natural gas sector with the Company s modeling framework in the electricity sector will create a unique analytical platform for integrated energy analysis. The Company also believes that EEA s expertise in automotive emissions and fuel efficiency technologies will expand the capabilities of the Company s transportation practice.

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The Company also acquired 100% of the outstanding common stock of Advanced Performance Consulting Group, Inc. (APCG), a privately held company that helps federal organizations develop and implement strategy, improve enterprise performance, manage change, support employee growth, and communicate effectively. APCG enjoys a reputation as a strategic advisor to senior-level federal clients. The Company believes the acquisition of APCG to be a good strategic fit and that there are growth opportunities in numerous areas for the combined businesses.

Both acquisitions were accounted for in accordance with the provision of SFAS No. 141, Business Combinations. The aggregate purchase price of both acquisitions was $13.4 million, including $13.0 million in cash and $0.4 million in transaction expenses. The results of operations for EEA and APCG have been included in the Company s statement of earnings since January 1, 2007.

The Company engaged an independent valuation firm to assist management in the allocation of the purchase price to goodwill and to other acquired intangible assets, but this allocation has not yet been finalized. The aggregate excess of the purchase price over the estimated fair value of the net tangible assets acquired was $11.1 million. At this time, the Company has allocated $7.9 million to goodwill and $3.2 million to other intangible assets. For these acquisitions, goodwill and intangibles are deductible for tax purposes. Supplemental *pro forma* data for the three-month and six-month periods ended June 30, 2006, are not presented because the acquired companies operating results were not material to the consolidated operations of the Company.

Note 3. Contract Receivables

Contract receivables consist of the following (in thousands of dollars):

	June 30, 2007	December 31, 2006
Billed	$ 90,230	$ 79,785
Unbilled	55,474	32,110
Allowance for doubtful accounts	(1,448)	(1,347)
Contract receivables, net	$ 144,256	$ 110,548

Contract receivables, net of the established allowance, are stated as amounts expected to be realized in future periods. Unbilled receivables result from revenue that has been earned in advance of billing. The unbilled receivables can be invoiced at contractually defined intervals or milestones, as well as upon completion of the contract or U.S. federal government cost audits. The Company anticipates that the majority of unbilled receivables will be substantially billed and collected within one year. Contract receivables are classified as current assets in accordance with industry practice.

The allowance for doubtful accounts is determined based upon management s best estimate of potentially uncollectible contract receivables, taking into account management s expectations of future losses on a contract-by-contract basis. The Company writes off contract receivables when such amounts are determined to be uncollectible. Losses have historically been within management s expectations.

Note 4. Commitments and Contingencies

Litigation and Claims

Various lawsuits and claims and contingent liabilities arise in the ordinary course of the Company s business. The ultimate disposition of certain of these contingencies is not determinable at this time. The Company s management believes there are no current outstanding matters that will materially affect the Company s financial position or results of operations.

Note 5. Debt

During the three months ended June 30, 2007, the Company made net repayments of $13.9 million on its revolving credit facility, and during the six months ended June 30, 2007, had net borrowings of $5.0 million under its revolving credit facility to finance acquisitions and working capital. The Company amended its credit facility on June 28, 2007, to increase the capacity of its revolving line of credit from $65 million to $95 million.

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Note 6. Accounting for Stock-Based Compensation

Stock Incentive Plans

Effective with the Company s initial public offering of stock in September 2006, a long-term equity incentive plan (the 2006 Plan) was adopted. The 2006 Plan permits the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, performance shares, performance units and other incentive awards, including restricted stock units. Under the 2006 Plan, the Company may make awards of up to 1,000,000 shares, plus an annual increase on the first day of each of the Company s fiscal years, beginning in 2007, equal to the lesser of 3% of the number of outstanding shares of common stock outstanding as of January 1 or a lesser amount as determined by the Board of Directors (the evergreen provision). Under this evergreen provision, 416,241 additional shares were made available under the plan as of January 1, 2007, and thereafter registered. Persons eligible to participate in the 2006 Plan include all officers and key employees of the Company, as determined by the Compensation Committee of the Board of Directors, and all non-employee directors.

Stock-Based Compensation

The Company recognized stock-based compensation expense of $0.8 million and $0.2 million in the three months ended June 30, 2007, and June 30, 2006, respectively, and $1.4 million and $0.3 million in the six months ended June 30, 2007, and June 30, 2006, respectively, which is included in indirect and selling expenses.

As of June 30, 2007, and June 30, 2006, there was $7.8 million and $0.2 million, respectively, of total unrecognized compensation cost related to unvested stock-based compensation agreements. Unrecognized compensation costs are expected to be recognized over a three- to five-year period on a straight-line basis.

Stock Options

All stock options granted through 2006 were granted under an earlier plan. All stock options granted in 2007 are under the 2006 Plan.

During the six months ended June 30, 2007, the Company granted stock options to purchase 210,000 shares of the Company s common stock at an exercise price of $18.31 per share, the fair value of the stock on the date of grant. The Black-Scholes-Merton weighted average fair value of the options granted during the six months ended June 30, 2007, was $7.81 per share and was based on the assumptions in the following table:

Dividend yield	0.00%
Expected volatility	41.09%
Risk-free interest rate	4.52%
Expected term (in years)	5

These options expire in ten years and vest over three years. The Company is expensing the value of these option grants over the vesting period. No stock options were granted during the three months ended June 30, 2007. The aggregate intrinsic value of options outstanding and exercisable was approximately $14.0 million. The intrinsic value of the unvested options granted in the six months ended June 30, 2007, was approximately $0.4 million.

In accordance with SFAS No. 123(R), *Share-Based Payment*, for the period beginning January 1, 2006, excess tax benefits from the exercise of stock options are presented as financing cash flows. The excess tax benefits totaled approximately $1.4 million and $2.3 million, respectively, for the three months and six months ended June 30, 2007. There was no excess tax benefits for the three months or six months ended June 30, 2006.

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The following table depicts stock option activity for the six months ended June 30, 2007:

	Options Outstanding	
	Shares	Weighted-Average Exercise Price
As of December 31, 2006	**1,487,082**	**$ 6.01**
Options granted in 2007	210,000	$ 18.31
Options forfeited or cancelled	0	n/a
Options exercised	(493,669)	5.99
As of June 30, 2007	**1,203,413**	**$ 8.16**

Restricted Stock and Restricted Stock Units

Pursuant to the 2006 Plan, the Company awarded 46,100 restricted stock units (RSUs) to employees during the six months ended June 30, 2007. The RSUs vest over three years under varying schedules. Upon vesting, the employee is issued one share of stock for each RSU he or she holds. The RSUs were valued based on the grant date value of a share of common stock. The weighted-average grant date fair value of the RSUs was $18.12 per share.

The activity related to RSUs during the six months ended June 30, 2007, was as follows:

	Shares
Outstanding December 31, 2006	464,000
Granted	46,100
Forfeited	(18,500)
Outstanding June 30, 2007	491,600

Note 7. Income Taxes

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on the derecognition, classification, accounting in interim periods, and disclosure requirements for uncertain tax positions. The Company adopted FIN 48 on January 1, 2007, and has developed and implemented a process based on the guidelines of FIN 48 to ensure that uncertain tax positions are identified, analyzed, and properly reported in its financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*.

Based on currently known facts and circumstances and current tax law, the Company believes that the total amount of unrecognized tax benefits as of June 30, 2007, is $0.9 million, which includes $0.1 million of accrued penalties and interest related to the unrecognized tax benefits. The unrecognized tax benefits, including the accrued penalties and interest, were recorded as an increase to income taxes payable and a reduction of retained earnings in the condensed balance sheet. Interest expense and penalty expense related to income taxes, if any, are included in interest expense and indirect and selling expenses, respectively, in the statement of earnings.

The total amount of unrecognized tax benefits as of June 30, 2007, if recognized, would have a $0.9 million effect on income tax expense and would impact the effective tax rate. There are no tax positions the Company has taken for which it is reasonably possible that the unrecognized tax benefits will significantly increase or decrease over the next 12 months producing individually, or in the aggregate, a material effect on its results of operations, financial condition, or cash flows. The Company remains subject to examination by major tax jurisdictions for tax years 2003 through 2006.

The Company has not yet determined the effect, if any, that the acquisition of Z-Tech will have on the amount of unrecognized tax benefits, but expects to make this determination by the end of 2007.

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Note 8. Earnings Per Share

Basic earnings per share (EPS) is computed by dividing reported net income by the weighted-average number of shares outstanding. Diluted EPS considers the potential dilution that could occur if common stock equivalents were exercised or converted into stock. The difference between the basic and diluted weighted-average equivalent shares with respect to the Company s EPS calculation is due entirely to the assumed exercise of stock options and the vesting of restricted stock and RSUs. For the three months and six months ended June 30, 2006, stock options equivalent to approximately 539,000 and 538,000 shares of common stock, respectively, were not included in diluted weighted-average shares outstanding because their inclusion would have had an anti-dilutive effect as a result of the assumed exercise price of these options. The dilutive effect of stock options, restricted stock, and RSUs for each period reported is summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net Income (loss)	$ 11,160	$ (1,406)	$ 19,842	$ (312)
Weighted-average number of basic shares outstanding during the period	14,123	9,270	13,939	9,248
Dilutive effect of stock options, restricted stock and RSUs	725		746	
Weighted-average number of diluted shares outstanding during the period	14,848	9,270	14,685	9,248
Basic earnings per share	$ 0.79	$ (0.15)	$ 1.42	$ (0.03)
Diluted earnings per share	$ 0.75	$ (0.15)	$ 1.35	$ (0.03)

Note 9. Recent Pronouncements

On February 15, 2007, the FASB issued FASB Statement No. 159 (SFAS No. 159), *The Fair Value Option for Financial Assets and Liabilities*, including an amendment of FASB Statement No. 115. SFAS No. 159 provides for the option to recognize most financial assets and liabilities and certain other items at fair value. SFAS No. 159 requires each company to provide additional information that will help investors and other users of financial statements more easily understand the effect of the company s choice to use fair value on its earnings. SFAS No. 159 is effective for the Company beginning January 1, 2008. The Company is evaluating the statement to determine its effect, if any, on its future financial statements and related disclosures.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

Some of the statements in this Quarterly Report on Form 10-Q constitute forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify these statements by forward-looking words such as anticipate, believe, could, estimate, expect, intend, may, plan, potential, should, will, would or similar w statements that contain these words carefully because they discuss our future expectations, contain projections of our future results of operations or of our financial position, or state other forward-looking information. The factors described in our filings with the SEC, as well as any cautionary language in this Quarterly Report on Form 10-Q, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements, including but not limited to:

changes in the spending priorities of our clients;

failure by Congress to approve budgets in a timely fashion;

our dependence on contracts with state and federal government agencies and departments for the majority of our revenue and our ability to win large-value procurements;

performance by us and our subcontractors under a major contract with the State of Louisiana, Office of Community Development (The Road Home contract), including our potential payment of liquidated damages under the contract that are related to performance goals;

acceleration of performance and revenues under The Road Home contract, including the effects of the accelerated distribution of available program funds, on the one hand, and significant audit risks associated with, and possible termination of, The Road Home contract, on the other hand;

results of government audits and investigations;

an economic downturn in the energy sector;

failure to receive the full amount of our backlog;

loss of members of management or other key employees;

difficulties implementing our acquisition strategy; and

difficulties expanding our service offerings and client base.

Additional factors that may affect our results are discussed in our Annual Report on Form 10-K for the year ended December 31, 2006, in Part I, Item 1A, entitled Risk Factors. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to update these forward-looking statements, even if our situation changes in the future.

The terms we and our as used throughout this Quarterly Report on Form 10-Q refer to ICF International, Inc. and its consolidated subsidiaries, unless otherwise indicated.

OVERVIEW

We provide management, technology and policy consulting and implementation services to government, commercial and international clients. We help our clients conceive, develop, implement and improve solutions that address complex economic, social and national security issues. Our services primarily address four key markets: energy and climate change; environment and infrastructure; health, human services and social programs; and homeland security and defense. Increased government involvement in virtually all aspects of our lives has created opportunities for us to resolve issues at the intersection of the public and private sectors. We believe that demand for our services will continue to grow as government, industry and other stakeholders seek to understand and respond to geopolitical and demographic changes, budgetary constraints, heightened environmental and social concerns, rapid technological changes, and increasing globalization.

Our clients utilize our services because we combine diverse institutional knowledge and experience in their activities with the deep subject matter expertise of our highly educated staff, which we deploy in multi-disciplinary teams. Our federal government clients have included every cabinet-level department, including the Department of Defense, the Environmental Protection Agency, the Department of Health and Human Services, the Department of Homeland Security, the Department of Transportation, the Department of Justice, and the Department of Energy. U.S. federal government clients generated approximately 25% of our revenue for the six months ended June 30, 2007, and 49% of our revenue in the full year 2006. We are comparing the breakdown of our year-to-date 2007 revenue in this paragraph to our revenue for the full year 2006 because we were awarded the Road Home contract in June 2006, which substantially increased the revenue generated from our state and local government clients. Our state and local government clients include the states of Louisiana, New York, Pennsylvania, and California. State and local government clients generated approximately 68% of our revenue for the six months ended June 30, 2007, and approximately 40% of our revenue in the full year 2006. The Road Home contract accounted for approximately 66% of our revenue for the six months ended June 30, 2007, and approximately 35% of our revenue in the full year 2006. We also serve commercial and international clients, primarily in the energy sector, including electric and gas utilities, oil companies and law firms. Our commercial and international clients, including government clients outside the United States, generated approximately 7% of our revenue for the six months ended June 30, 2007, and 11% of our revenue in the full year 2006. We have successfully worked with many of these clients for decades, with the result that we have a unique and knowledgeable perspective on their needs.

We partner with our clients to solve complex problems and produce mission-critical results. Across our markets, we provide end-to-end services that deliver value throughout the entire life of a policy, program, project or initiative:

Advisory Services. We help our clients analyze the policy, regulatory, technology and other challenges facing them and develop strategies and plans for responding. Our advisory and management consulting services include needs and markets assessment, policy analysis, strategy and concept development, change management strategy, enterprise architecture and program design.

Implementation Services. We implement and manage technological, organizational and management solutions for our clients, often based on the results of our advisory services. Our implementation services include information technology solutions, project and program management, project delivery, strategic communications and training.

Evaluation and Improvement Services. In support of advisory and implementation services, we provide evaluation and improvement services to help our clients increase the future efficiency and effectiveness of their programs. These services include program evaluation, continuous improvement initiatives, performance management, benchmarking and return-on-investment analyses.

We have more than 2,500 employees, including many who are recognized thought leaders in their respective fields. We serve clients globally from our headquarters in the metropolitan Washington, D.C. area, our 18 primary domestic regional offices throughout the United States, and our five international offices in London, Moscow, New Delhi, Rio de Janeiro and Toronto.

On October 3, 2006, we completed our IPO. In connection with the IPO, we issued 3,659,448 shares of common stock at an offering price of $12 per share. On October 23, 2006, in accordance with the terms of our agreement with the underwriters of the IPO, we sold an additional 700,500 shares at $12 per share, representing a full exercise of the underwriters over-allotment option. Including the over-allotment option, we issued a total of 4,359,948 shares of common stock in the IPO for total gross proceeds of $52.3 million.

Prior to and in connection with the closing of the IPO, on September 26, 2006, the Company increased the amount of authorized common shares from 20,000,000 shares to 70,000,000 shares and changed the par value of common stock from $.01 per share to $.001 per share. The Company also amended its Certificate of Incorporation to provide the authority to issue 5,000,000 shares of preferred stock with a par value of $0.001 per share. Dividends, if any, on outstanding shares of preferred stock shall be paid or declared and set apart for payment before any dividends shall be paid or declared and set apart for payment on shares of common stock with respect to the same dividend period. If upon any liquidation, dissolution or winding up of the Company, assets are insufficient to pay the preferred shareholders the amounts to which they are entitled, any such assets shall be distributed ratably among the shareholders in accordance with their respective priorities and preferential amounts (including unpaid cumulative dividends, if any). No shares of preferred stock had been issued as of June 30, 2007.

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DESCRIPTION OF CRITICAL ACCOUNTING POLICIES

The preparation of our financial statements in accordance with US GAAP requires that we make estimates and judgments that affect the reported amount of assets, liabilities, revenue, and expenses, as well as the disclosure of contingent assets and liabilities. If any of these estimates or judgments proves to be incorrect, our reported results could be materially affected. Actual results may differ significantly from our estimates under different assumptions or conditions. We believe that the estimates, assumptions and judgments involved in the accounting practices described below have the greatest potential impact on our financial statements and therefore consider them to be critical accounting policies.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, services have been rendered, the contract price is fixed or determinable, and collectibility is reasonably assured. We enter into contracts that are either time-and-materials contracts, cost-based contracts or fixed-price contracts.

Time-and-Materials Contracts. Revenue under time-and-materials contracts is recognized as costs are incurred. Revenue for time-and-materials contracts is recorded on the basis of allowable labor hours worked multiplied by the contract-defined billing rates, plus the costs of other items used in the performance of the contract. Profit and losses on time-and-materials contracts result from the difference between the cost of services performed and the contract-defined billing rates for these services.

Cost-Based Contracts. Revenue under cost-based contracts is recognized as costs are incurred. Applicable estimated profit, if any, is included in earnings in the proportion that incurred costs bear to total estimated costs. Incentives, award fees, or penalties related to performance are also considered in estimating revenue and profit rates based on actual and anticipated awards.

Fixed-Price Contracts. Revenue for fixed-price contracts is recognized when earned, generally as work is performed in accordance with the provisions of SEC Staff Accounting Bulletin No. 104, *Revenue Recognition*. Services performed vary from contract to contract and are not uniformly performed over the term of the arrangement. Revenue on certain fixed-price contracts is recorded each period based on contract costs incurred to date compared with total estimated costs at completion (cost-to-cost method). Performance is based on the ratio of costs incurred to total estimated costs where the costs incurred represent a reasonable surrogate for output measures of contract performance, including the presentation of deliverables to the client. Progress on a contract is matched against project costs and costs to complete on a periodic basis. Clients are obligated to pay as services are performed, and in the event that a client cancels the contract, payment for services performed through the date of cancellation is negotiated with the client. Revenue on certain fixed-price contracts is recognized ratably over the period benefited. Revenue on certain other fixed-price contracts is recorded based on units delivered to the customer multiplied by the contract-defined unit price.

Revenue recognition requires us to use judgment relative to assessing risks, estimating contract revenue and costs, and making assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of revenue and cost at completion can be complicated and is subject to many variables. Contract costs include labor, subcontracting costs and other direct costs, as well as allocation of allowable indirect costs. We must also make assumptions regarding the length of time to complete the contract because costs also include expected increases in wages, prices for subcontractors and other direct costs. From time to time, facts develop that require us to revise our estimated total costs and revenue on a contract. To the extent that a revised estimate affects contract profit or revenue previously recognized, we record the cumulative effect of the revision in the period in which the facts requiring the revision become known. Provision for the full amount of an anticipated loss on any type of contract is recognized in the period in which it becomes probable and can be reasonably estimated. As a result, operating results could be affected by revisions to prior accounting estimates.

We generate invoices to clients in accordance with the terms of the applicable contract, which may not be directly related to the performance of services. Unbilled receivables are invoiced based upon the achievement of specific events as defined by each contract including deliverables, timetables and incurrence of certain costs. Unbilled receivables are classified as a current asset. Advanced billings to clients in excess of revenue earned are recorded as deferred revenue until the revenue recognition criteria are met. Reimbursements of out-of-pocket expenses are included in revenue with corresponding costs incurred by us included in cost of revenue.

From time to time, we may proceed with work based on client direction prior to the completion and signing of formal contract documents. We have a formal review process for approving any such work. Revenue associated with such work is recognized only when it can reliably be estimated and realization is probable. We base our estimates on a variety of factors, including previous experiences with the client, communications with the client regarding funding status, and our knowledge of available funding for the contract.

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Goodwill and the Amortization of Intangible Assets

Costs in excess of the fair value of tangible and identifiable intangible assets acquired and liabilities assumed in a business combination are recorded as goodwill, in accordance with SFAS No. 141, *Business Combinations.* Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but are instead reviewed annually (or more frequently if impairment indicators arise) for impairment in accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets.* SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-lived Assets.*

We have elected to perform the annual goodwill impairment review as of September 30 of each year during the fourth quarter. Based upon management s review, including a valuation report issued by an investment bank, we determined that no goodwill impairment charge was required for 2005 or 2006.

We follow the provisions of SFAS No. 144 in accounting for impairment or disposal of long-lived assets. SFAS No. 144 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell.

New Accounting Standards

On February 15, 2007, the FASB issued FASB Statement No. 159 (SFAS No. 159), *The Fair Value Option for Financial Assets and Liabilities,* including an amendment of FASB Statement No. 115. SFAS No. 159 provides for the option to recognize most financial assets and liabilities and certain other items at fair value. SFAS No. 159 requires each company to provide additional information that will help investors and other users of financial statements more easily understand the effect of the company s choice to use fair value on its earnings. SFAS No. 159 is effective for us beginning January 1, 2008. We are evaluating the statement to determine its effect, if any, on our future financial statements and related disclosures.

DIRECT COSTS

Direct costs consist primarily of costs incurred to provide services to clients, the most significant of which include employee salaries and wages, plus associated fringe benefits, relating to specific client engagements. Direct costs also include the costs of subcontractors and outside consultants, third-party materials and any other related direct costs, such as travel expenses.

We generally expect the ratio of direct costs as a percentage of revenue to decline when our own labor increases relative to subcontracted labor or outside consultants. Conversely, as subcontracted labor or outside consultants for clients increase relative to our own labor, we expect the ratio to increase. This increase has in fact occurred, primarily due to the relatively high level of subcontractor costs associated with The Road Home contract.

Changes in the mix of services and other direct costs provided under our contracts can result in variability in our direct costs as a percentage of revenue. For example, if we are successful in our strategy to increase the proportion of our work in the area of implementation (as in the case of The Road Home contract), we expect that more of our services will be performed in client-provided facilities and/or with dedicated staff. Such work generally has a higher proportion of direct costs than much of our current advisory work, and we anticipate that higher utilization of such staff will decrease the amount of indirect expenses. In addition, to the extent we are successful in winning larger contracts, our own labor services component could decrease because larger contracts typically are broader in scope and require more diverse capabilities, potentially resulting in more subcontracted labor, increased other direct costs and lower margins. Although these factors could lead to a higher ratio of direct costs as a percentage of revenue, the economics of these larger jobs are nonetheless generally favorable because they increase income, broaden our revenue base, and have a favorable return on invested capital.

OPERATING EXPENSES

Our operating expenses consist of indirect and selling expenses, including non-cash compensation, and depreciation and amortization.

Indirect and Selling Expenses

Indirect and selling expenses include our management, facilities and infrastructure costs for all employees, as well as salaries and wages, plus associated fringe benefits, not directly related to client engagements. Among the functions covered by these expenses are marketing, business and corporate development, bids and proposals, facilities, information technology and systems, contracts administration, accounting, treasury, human resources, legal, corporate governance and executive and senior management. We include all of our cash incentive compensation in this item, as well as non-cash incentive compensation such as stock-based compensation provided to employees whose compensation and other benefit costs are included in both direct costs and indirect and selling expenses.

Non-Cash Compensation

We recognized stock-based compensation expense of $0.8 million and $1.4 million in the three months and six months ended June 30, 2007, respectively, which is included in indirect and selling expenses. There was stock-based compensation expense of $0.2 million and $0.3 million in the three months and six months ended June 30, 2006, respectively.

As of June 30, 2007, there was $7.8 million of total unrecognized compensation cost related to unvested stock-based compensation. These unrecognized compensation costs are expected to be recognized over a three- to five-year period on a straight-line basis.

Depreciation and Amortization

Depreciation and amortization include the depreciation of computers, furniture, and other equipment; the amortization of the costs of software we use internally; leasehold improvements; and the amortization of intangible assets arising from acquisitions.

INCOME TAX EXPENSE

Our effective tax rate of 39.84% for the six months ended June 30, 2007, was higher than the statutory tax rate primarily due to permanent tax differences related to expenses not deductible for tax purposes and prior year adjustments, decreased by a federal tax credit.

RESULTS OF OPERATIONS

Three Months ended June 30, 2007, compared to Three Months ended June 30, 2006

The following table sets forth certain items from our unaudited condensed consolidated statements of operations and the period-over-period rate of change in each of them and expresses these items as a percentage of revenue for the periods indicated.

	Three Months Ended June 30,				Year-to-Year Change Three Months Ended June 30, 2006 to 2007	
	2007	2006	2007	2006	Dollars (In Thousands)	Percent
	Dollars (In Thousands)		Percentages			
Revenue	$ 190,171	$ 56,145	100.0%	100.0%	$ 134,026	238.7%
Direct Costs	142,640	34,836	74.9%	62.1%	107,804	309.5%
Operating Expenses						
Indirect and selling expenses	27,734	21,978	14.6%	39.1%	5,756	26.2%
Depreciation and amortization	1,174	894	0.6%	1.6%	280	31.3%
Total Operating Expenses	28,908	22,872	15.2%	40.7%	6,036	26.4%
Earnings (loss) from Operations	18,623	(1,563)	9.9%	(2.8)%	20,186	
Other (Expense) Income						
Interest expense, net	(281)	(1,139)	(0.2)%	(2.0)%	858	(75.3)%
Other	25		0.0%		25	
Income (loss) before Income Taxes	18,367	(2,702)	9.7%	(4.8)%	21,069	
Income Tax Expense (benefit)	7,207	(1,296)	3.8%	(2.3)%	8,503	

Net Income (loss)	$ 11,160	$ (1,406)	5.9%	(2.5)%	$ 12,566

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Revenue. Revenue for the three months ended June 30, 2007, was $190.2 million, compared to $56.1 million for the three months ended June 30, 2006, representing an increase of $134.1 million or 238.7%. The increase was primarily due to revenue of $128.6 million associated with The Road Home contract for the three months ended June 30, 2007.

Direct costs. Direct costs for the three months ended June 30, 2007, were $142.6 million, or 74.9% of revenue, compared to $34.8 million, 62.1% of revenue, for the three months ended June 30, 2006. This increase resulted primarily from the corresponding increase in activities under The Road Home contract. The increase in direct costs as a percentage of revenue was primarily attributable to the large percentage of work ($85.7 million during the three months ended June 30, 2007) that was subcontracted to other parties on The Road Home contract.

Indirect and selling expenses. Indirect and selling expenses for the three months ended June 30, 2007, were $27.7 million, or 14.6% of revenue, compared to $22.0 million, or 39.1% of revenue for the three months ended June 30, 2006. The increase in indirect and selling expenses was due principally to compensation expense. The decrease in indirect costs as a percentage of revenue for the three months ended June 30, 2007, was primarily attributable to the large increase in revenue on The Road Home contract. Given the significance of subcontracted work on the Road Home project, there has not been a substantial increase in indirect costs to support the current revenue volume.

Depreciation and amortization. Depreciation and amortization for the three months ended June 30, 2007, was $1.2 million, or 0.6% of revenue, compared to $0.9 million, or 1.6% of revenue for the three months ended June 30, 2006. This 31.3% increase in depreciation and amortization resulted primarily from the amortization of intangible assets recorded as a result of our January 2007 acquisitions.

Earnings from Operations. For the three months ended June 30, 2007, earnings (loss) from operations were $18.6 million, or 9.9% of revenue, compared to $(1.6) million, or (2.8)% of revenue for the three months ended June 30, 2006. Earnings from operations increased primarily due to the increased volume of services from The Road Home contract for the three months ended June 30, 2007, and the non-recurring $4.3 million charge to earnings for the abandonment of space in Lexington and San Francisco in the three months ended June 30, 2006.

Interest expense, net. For the three months ended June 30, 2007, net interest expense was $0.3 million, compared to $1.1 million for the three months ended June 30, 2006. The 75.3% decrease was due primarily to lower levels of debt resulting from the completion of our initial public offering in the fall of 2006 and improved operating cash flows.

Income tax expense. Our effective income tax rate for the three months ended June 30, 2007, was 39.24% compared to 48.0% for the three months ended June 30, 2006. The effective tax rate decreased due to a significant decrease in the ratio of non-tax-deductible expenses to estimated income and the use of a federal tax credit.

Six Months ended June 30, 2007, compared to Six Months ended June 30, 2006

The following table sets forth certain items from our unaudited condensed consolidated statements of operations and the period-over-period rate of change in each of them and expresses these items as a percentage of revenue for the periods indicated.

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	Six Months Ended June 30, 2007	2006	2007	2006	Year-to-Year Change Six Months Ended June 30, 2006 to 2007	
	Dollars (In Thousands)		Percentages		Dollars (In Thousands)	Percent
Revenue	$ 341,884	$ 109,593	100.0%	100.0%	$ 232,291	212.0%
Direct Costs	250,792	66,462	73.4%	60.6%	184,330	277.3%
Operating Expenses						
Indirect and selling expenses	55,468	39,861	16.2%	36.4%	15,607	39.2%
Depreciation and amortization	2,341	1,666	0.7%	1.5%	675	40.5%
Total Operating Expenses	57,809	41,527	16.9%	37.9%	16,282	39.2%
Earnings from Operations	33,283	1,604	9.7%	1.5%	31,679	1975.0%
Other (Expense) Income						
Interest expense, net	(327)	(2,165)	(0.1)%	(2.0)%	1,838	(84.9)%
Other	25		0.0%		25	
Income (loss) before Income Taxes	32,981	(561)	9.6%	(0.5)%	33,542	
Income Tax Expense (benefit)	13,139	(249)	3.8%	(0.2)%	13,388	
Net Income (loss)	$ 19,842	$ (312)	5.8%	(0.3)%	$ 20,154	

Revenue. Revenue for the six months ended June 30, 2007, was $341.9 million, compared to $109.6 million for the six months ended June 30, 2006, representing an increase of $232.3 million, or 212.0%. The increase was primarily due to revenue of $225.3 million associated with The Road Home contract for the six months ended June 30, 2007.

Direct costs. Direct costs for the six months ended June 30, 2007, were $250.8 million, or 73.4% of revenue, compared to $66.5 million, or 60.6% of revenue, for the six months ended June 30, 2006. This increase resulted primarily from the corresponding increase in activities under The Road Home contract. The increase in direct costs as a percentage of revenue was primarily attributable to the large percentage of work ($144.9 million during the six months ended June 30, 2007) that was subcontracted to other parties on The Road Home contract.

Indirect and selling expenses. Indirect and selling expenses for the six months ended June 30, 2007, were $55.5 million, or 16.2% of revenue, compared to $39.9 million, or 36.4% of revenue, for the six months ended June 30, 2006. The 39.2% increase in indirect and selling expenses was due principally to compensation expense. The decrease in indirect costs as a percentage of revenue for the six months ended June 30, 2007, was primarily attributable to the large increase in revenue on The Road Home contract (primarily from increased subcontractor activities).

Depreciation and amortization. Depreciation and amortization for the six months ended June 30, 2007, was $2.3 million, or 0.7% of revenue, compared to $1.7 million, or 1.5% of revenue, for the six months ended June 30, 2006. This 40.5% increase in depreciation and amortization resulted primarily from the amortization of intangible assets recorded as a result of our January 2007 acquisitions.

Earnings from Operations. For the six months ended June 30, 2007, earnings from operations were $33.3 million, or 9.7% of revenue, compared to $1.6 million, or 1.5% of revenue, for the six months ended June 30, 2006. Earnings from operations increased primarily due to the increased volume of services from The Road Home contract for the six months ended June 30, 2007, and the non-recurring $4.3 million charge to earnings for the abandonment of space in Lexington and San Francisco in the six months ended June 30, 2006.

Interest expense, net. For the six months ended June 30, 2007, net interest expense was $0.3 million, compared to $2.2 million for the six months ended June 30, 2006. The 84.9% decrease was due primarily to lower levels of debt resulting from the completion of our initial public offering in the fall of 2006 and improved operating cash flows.

Income tax expense. Our effective income tax rate for the six months ended June 30, 2007, was 39.84% compared to 44.4% for the six months ended June 30, 2006. The effective tax rate decreased due to a significant decrease in the ratio of non-tax-deductible expenses to estimated income and the use of a federal tax credit.

SELECTED KEY METRICS

Revenue

We earn revenue from services that we provide to government and commercial clients in four key markets:

energy and climate change;

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environment and infrastructure;

health, human services and social programs; and

homeland security and defense.

The following table shows our revenue from each of our four markets as a percentage of total revenue for the periods indicated. For each client, we have attributed all revenue from that client to the market we consider to be the client s primary market, even if a portion of that revenue relates to a different market. The Road Home Contract is classified in our health, human services and social programs market.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Energy and climate change	8%	17%	8%	18%
Environment and infrastructure	7%	28%	8%	28%
Health, human services and social programs	77%	27%	76%	26%
Homeland security and defense	8%	28%	8%	28%
Total	100%	100%	100%	100%

Our primary clients are the State of Louisiana and agencies and departments of the U.S. federal government. The following table shows our revenue by type of client as a percentage of total revenue for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
U.S. state and local government	70%	9%	68%	9%
U.S. federal government	23%	76%	25%	75%
Domestic commercial	5%	10%	5%	11%
International	2%	5%	2%	5%
Total	100%	100%	100%	100%

Revenue generated from our state and local government clients has increased in 2007, due primarily to our work in connection with The Road Home contract.

Contract Mix

Our contracts with clients include time-and-materials contracts, cost-based contracts (including cost-based fixed fee, cost-based award fee and cost-based incentive fee, as well as grants and cooperative agreements), and fixed-price contracts. Our contract mix varies from year to year due to numerous factors, including our business strategies and the procurement activities of our clients. Unless the content requires otherwise, we use the term contracts to refer to contracts and any task orders or delivery orders issued under a contract. The following table shows our revenue from each of these types of contracts as a percentage of total revenue for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Time-and-materials	53%	44%	53%	44%

Cost-based	8%	33%	8%	32%
Fixed-price	39%	23%	39%	24%
Total	100%	100%	100%	100%

Time-and-materials contracts. Under time-and-materials contracts, we are paid for labor at fixed hourly rates and generally reimbursed separately for allowable materials, other direct costs and out-of-pocket expenses. Our actual labor costs may vary from the expected costs that formed the basis for our negotiated hourly rates if we utilize different employees than anticipated, need to hire additional employees at higher wages, increase the compensation paid to existing employees, or are able to hire employees at lower-than-expected rates. Our non-labor costs, such as fringe benefits, overhead and general and administrative costs, also may be higher or lower than we anticipated. To the extent that our actual labor and non-labor costs under a time-and-materials contract vary significantly from the negotiated hourly rates, we can generate more or less than the targeted amount of profit or, perhaps, a loss.

Cost-based contracts. Under cost-based contracts, we are paid based on the allowable costs we incur, and usually receive a fee. All of our cost-based contracts reimburse us for our direct labor and fringe-benefit costs that are allowable under the contract, but many limit the amount of overhead and general and administrative costs we can recover, which may be less than our actual overhead and general and administrative costs. In addition, our fees are constrained by fee ceilings and in certain cases, such as with grants and cooperative agreements, we may receive no fee. Because of these limitations, our cost-based contracts, on average, are our least profitable type of contract and we may generate less than the expected return. Cost-based fixed fee contracts specify the fee to be paid. Cost-based incentive fee and cost-based award fee contracts provide for increases or decreases in the contract fee, within specified limits, based upon actual results as compared to contractual targets for factors such as cost, quality, schedule and performance.

Fixed-price contracts. Under fixed-price contracts, we perform specific tasks for a pre-determined price. Compared to time-and-materials and cost-based contracts, fixed-price contracts involve greater financial risk because we bear the full impact of labor and non-labor costs that exceed our estimates, in terms of costs per hour, number of hours, and all other costs of performance, in return for the full benefit of any cost savings. We therefore may generate more or less than the targeted amount of profit or, perhaps, a loss.

Contract Backlog

We define *total backlog* as the future revenue we expect to receive from our contracts and other engagements. We generally include in backlog the estimated revenue represented by contract options that have been priced, though not exercised. We do not include any estimate of revenue relating to potential future delivery orders that might be awarded under our General Services Administration Multiple Award Schedule contracts, other Indefinite Delivery/Indefinite Quantity (IDIQ) contracts, or other contract vehicles that are also held by a large number of firms, and under which potential future delivery orders or task orders might be issued by any of a large number of different agencies and are likely to be subject to a competitive bidding process. We do, however, include potential future work expected to be awarded under IDIQ contracts that are available to be utilized by a limited number of potential clients and are held either by us alone or by a limited number of firms.

We include expected revenue in *funded backlog* when we have been authorized by the client to proceed under a contract up to the dollar amount specified by our client, and this amount will be owed to us under the contract after we provide the services pursuant to the authorization. If we do not provide services authorized by a client prior to the expiration of the authorization, we remove amounts corresponding to the expired authorization from backlog. We do include expected revenue under an engagement in funded backlog when we do not have a signed contract if we have received client authorization to begin or continue working and we expect to sign a contract for the engagement. In this case, the amount of funded backlog is limited to the amount authorized. Our funded backlog does not represent the full revenue potential of our contracts because government clients, and sometimes other clients, generally authorize work under a particular contract on a yearly or more frequent basis, even though the contract may extend over a number of years. Most of the services we provide to commercial clients are provided under contracts with relatively short durations that authorize us to provide services and, as a consequence, our backlog attributable to these clients is typically reflected in funded backlog and not in unfunded backlog.

We define *unfunded backlog* as the difference between total backlog and funded backlog. Our revenue estimates for purposes of determining unfunded backlog for a particular contract are based, to a large extent, on the amount of revenue we have recently recognized on that contract, our experience in utilizing contract capacity on similar types of contracts, and our professional judgment. Our revenue estimate for a contract included in backlog is sometimes lower than the revenue that would result from our client utilizing all remaining contract capacity.

Although we expect our contract backlog to result in revenue, the timing of revenue associated with both funded and unfunded backlog will vary based upon a number of factors, and we may not recognize revenue associated with a particular component of backlog when anticipated, or at all. Our government clients generally have the right to cancel any contract, or ongoing or planned work under any contract, at any time. In addition, there can be no assurance that revenue from funded or unfunded backlog will have similar profitability to previous work or will be profitable at all. Generally speaking, we believe the risk that a particular component of backlog will not result in future revenue is higher for unfunded backlog than for funded backlog.

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Our estimates of funded, unfunded and total backlog at the dates indicated were as follows:

	June 30, 2007	June 30, 2006
	(in millions)	
Funded	$ 561.9	$ 191.3
Unfunded	$ 258.7	$ 118.3
Total	$ 820.6	$ 309.6

The backlog estimates at June 30, 2007, include an estimated funded backlog of $414.7 million associated with The Road Home contract, but do not include any backlog associated with Z-Tech.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Financial Condition. Contract receivables, net, increased to $144.3 million as of June 30, 2007, compared to $110.5 million as of December 31, 2006, due to growth in revenue, most significantly under The Road Home contract. The other significant change in our assets from December 31, 2006, was an increase in goodwill from $83.8 million to $116.5 million as of June 30, 2007, resulting from our acquisitions of EEA, APCG, and Z-Tech.

Our current liabilities increased to $133.4 million as of June 30, 2007, from $96.3 million as of December 31, 2006, due primarily to a $14.8 million increase in accounts payable and a $25.8 million increase in accrued expenses. Both of these increases were primarily attributable to activity levels (including those of subcontractors) under The Road Home contract. Our long-term debt increased from zero as of December 31, 2006, to $5 million as of June 30, 2007, due primarily to the acquisitions of EEA, APCG, and Z-Tech, which were funded through bank debt. The increase in debt was not as large as the cash paid for these acquisitions because of the cash provided by our ongoing operations during this period.

Liquidity. Short-term liquidity requirements are created by our use of funds for working capital, capital expenditures, and the need to provide debt service. We expect to meet these requirements through a combination of cash flow from operations and borrowings under our Amended and Restated Credit Agreement.

We anticipate that our long-term liquidity requirements, including any further acquisitions, will be funded through a combination of cash flow from operations, borrowings under our Amended and Restated Credit Agreement, additional secured or unsecured debt, or the issuance of common or preferred stock, each of which may be initially funded through borrowings under our Amended and Restated Credit Agreement.

Under the terms of our Amended and Restated Credit Agreement, we are required to comply with financial and non-financial covenants. We were in compliance with all such covenants as of June 30, 2007.

Cash and Cash Equivalents. We consider cash on deposit and all highly liquid investments with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalents, including marketable securities, was $1.7 million and $3.0 million on June 30, 2007, and December 31, 2006, respectively.

Credit Facility and Borrowing Capacity. We amended our Amended and Restated Credit Agreement on June 28, 2007, to increase the capacity of our revolving line of credit from $65 million to $95 million. In this amendment, our lenders also consented to our acquisition of Z-Tech. As of June 30, 2007, we had a borrowing base of $95 million, with $5 million outstanding on our revolving line of credit and letters of credit outstanding totaling $0.5 million, resulting in a borrowing availability of $89.5 million.

Cash Flow. The following table sets forth our sources and uses of cash for the six months ended June 30, 2007, and June 30, 2006:

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
	(in thousands)	

Net cash provided by (used in) operations	$ 30,154	$ (822)
Net cash used in investing activities	(42,322)	(1,990)
Net cash provided by financing activities	10,763	3,474
Effect of exchange rate on cash	85	(17)
Net (decrease) increase in cash	$ (1,320)	$ 645

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Our operating cash flow is primarily affected by the overall profitability of our contracts, our ability to invoice and collect from our clients in a timely manner, and our ability to manage our vendor payments. We bill most of our clients monthly after services are rendered. Operating activities provided cash of $30.2 million in the six months ended June 30, 2007; operating activities used $0.8 million of cash in the six months ended June 30, 2006. Cash flows from operating activities for the first six months of 2007 were positively impacted by increased profitability and the timing of customer receipts.

Investing activities used cash of $42.3 million for the six months ended June 30, 2007, compared to $2.0 million for the six months ended June 30, 2006. The cash used in investing activities for the first six months of 2007 was primarily for payments for business acquisitions. The cash used in investing activities for the first six months of 2006 was primarily for capital expenditures.

For the six months ended June 30, 2007, cash flow provided by financing activities of $10.8 million was attributable primarily to a $5.0 million increase in debt and $3.0 million in net proceeds from the exercise of stock options. For the six months ended June 30, 2006, cash flow provided by financing activities was attributable primarily to a $4.0 million increase in debt, which we used to finance our capital expenditures and working capital.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

For the six months ended June 30, 2007, we did not have any off-balance sheet arrangements. Information relating to payments due under contractual obligations is presented in our Annual Report on Form 10-K for the year ended December 31, 2006. There were no material changes in our payments due under contractual obligations during the first six months of 2007.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the disclosures discussed in the section entitled Quantitative and Qualitative Disclosures About Market Risk in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2006.

Item 4. Controls and Procedures

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting. As of June 30, 2007, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in our reports filed with the SEC under the Exchange Act is (1) recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms, and (2) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. There have been no significant changes in our internal controls over financial reporting during the period covered by this Quarterly Report on Form 10-Q or, to our knowledge, in other factors that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Limitations on the Effectiveness of Controls. Control systems, no matter how well conceived and operated, are designed to provide a reasonable, but not an absolute, level of assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in various legal matters and proceedings concerning matters arising in the ordinary course of business. We currently believe that any ultimate liability arising out of these matters and proceedings will not have a material adverse effect on our financial position, results of operations, or cash flows.

Item 1A. Risk Factors

There have been no material changes in those risk factors discussed in the section entitled Risk Factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2006. The risks described in our Annual Report on Form 10-K are not the only risks that we encounter. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There have been no changes to the Recent Sales of Unregistered Securities disclosed in Part II, Item 5 of our Annual Report on Form 10-K for the year ended December 31, 2006, other than a total of 1,820 shares of unregistered stock, valued at approximately $26,481, issued to three directors of the Company on January 3, 2007, and a total of 1,261 shares of unregistered stock, valued at approximately $24,451, issued to three directors of the Company on April 2, 2007, in lieu of cash for director fee compensation. The issuance of these shares is exempt under Section 4(2) of the Securities Act of 1933, as amended.

There have been no purchases of equity securities by the issuer during the three months ended June 30, 2007.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders of the Company was held on June 1, 2007. The results of the vote on the matters presented at the meeting on that date were as follows:

1. The following individuals were elected as directors, each for a three-year term, by the following vote:

	Votes For	Votes Withheld
Dr. Srikant M. Datar	12,540,363	5,370
Mr. Peter M. Schulte	11,384,453	1,161,280

2. The appointment of Grant Thornton LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2007, was ratified by the stockholders by the following vote:

Votes For	Votes Against	Abstain
12,350,151	181,834	13,747

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Number	**Exhibit**
3.1	Amended and Restated Certificate of Incorporation (Incorporated by reference to exhibit 4.1 to the Company s Registration Statement on Form S-8 (File No. 333-137975), effective as of October 12, 2006).
3.2	Amended and Restated Bylaws (Incorporated by reference to exhibit 3.2 to the Company s Registration Statement on Form S-1 (File No. 333-134018) and amendments thereto, declared effective September 27, 2006 (the Form S-1).

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4.1	Specimen common stock certificate (Incorporated by reference to exhibit 4.1 to the Company s Form S-1).
4.2	See Exhibits 3.1 and 3.2 for provisions of the Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws of the Registrant defining the rights of holders of common stock of the Company.
4.3	Form of Amended and Restated Registration Rights Agreement (Incorporated by reference to exhibit 4.2 to the Company s Form S-1).
10.1	Fifth Amendment of Contract between ICF Emergency Management Services, LLC and the State of Louisiana, through the Division of Administration, Office of Community Development (Incorporated by reference to Exhibit 10.1 to the Company s Form 8-K, filed June 29, 2007).
10.2	Fourth Modification to Amended and Restated Business Loan and Security Agreement and Other Loan Documents, dated June 28, 2007 (Incorporated by reference to Exhibit 10.1 to the Company s Form 8-K, filed July 5, 2007).
31.1	Certificate of the Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a).
31.2	Certificate of the Principal Financial and Accounting Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a).
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	ICF INTERNATIONAL, INC.	
August 14, 2007	By:	/s/ SUDHAKAR KESAVAN Sudhakar Kesavan Chairman, President and Chief Executive Officer (Principal Executive Officer)
August 14, 2007	By:	/s/ ALAN R. STEWART Alan R. Stewart Chief Financial Officer and Assistant Corporate Secretary (Principal Financial and Accounting Officer)

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